

Increasing Indian Household Debt Due to Lifestyle based Loans on EMIs – Is this Whistle Blowing for Household?

Dr. Kuppachi Sreenivas^{1*} | Dr. Muhammad Ashiq A M² | Ms. Dani Mol Daniel³

¹Professor, Department of Business Management, DC School of Management and Technology, One School Avenue, Pullikkanam P.O, Idukki, Kerala, South India.

²Assistant Professor, DC School of Management and Technology, Pullikkanam, Idukki District, Kerala, India.

³Assistant Professor, DC School of Management and Technology, Pullikkanam, Idukki District, Kerala, India.

*Corresponding Author: sreenivaskuppachi@gmail.com

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ABSTRACT

Consumption is the back bone of economy but at whose cost? India has middle class population almost equal to American population. They are the aspirants and lead economic growth. Unfortunately they are spending at the cost of their household prospects. The future of these aspirants financial stability will land in risk. The culture of luxurious spending without looking at their income generation capacity, using EMI and spending for fashion and luxurious lifestyle is a hurdle for their future financial stability. Asset building like buying land, house, gold and vehicles within their budget should be focused. The authors made an attempt to 'provoke' thought in the minds of such middle class and further researchers can address the issue in their research. This Article is prepared based on the general observation in the society and address by Prof. K. Nageshwar: A distinguished professor, journalist, legislator, and public intellectual known for his contributions to journalism, public service, and social mobilization.

Keywords: EMI, Household Debt, Lifestyle Loans.

Introduction

In the present days on daily basis people get calls from banks/Fintech companies asking to take personal/consumer loans. It's crazy! Thirty years ago, it was different borrowers have to approach bank for a loan, and answer the questions by the bank were - "Who are you? Do you know the bank manager? Can you get a collateral security? Do you have bank account? But now a days they keep calling and informing about pre-approved loans. What's going on? How has the economy changed so much? What's causing this?

As Rajesh Shukla rightly observed - India marches toward its \$5 trillion economic goal, the discourse around household debt tends to veer toward alarm. Rising indebtedness is often viewed as a red flag—a symptom of financial stress or economic exclusion. While this concern is not unfounded, it also misses a crucial dimension. For many Indian households, debt is not just a burden. It is a deliberate tool for investment, a coping mechanism in the face of weak public provisioning, and sometimes, a pathway to upward mobility (Debt isn't the enemy: It offers many Indian households a lifeline – price360.in)

Effect of EMIs

Today in India, EMI—Equated Monthly Instalment—has become like an epidemic. By epidemic, I mean it's growing insanely fast, not just a normal increase. For example, take the Apple iPhone: 70% of the people buying it on EMI.

This EMI could be for a personal loan or something similar. A big chunk of their salary goes towards these EMIs, so until around the 20th or 21st of the month, they won't have much cash left. That's why it's not really an "equated monthly instalment" but more like the "end of the monthly income." The reason for taking loans at this level is because of the Fintech revolution. Financial technology revolution isn't a bad thing; it's actually very important for the country's economy

People are buying them. Because of that, it got a new name too—"Buy Now Pay Later or BNPL for short. It means you can buy it now, take it home, and pay slowly over time. But with Buy Now Pay Later, they don't say it softly—they say it firmly. If you don't pay up, they'll come and take your scooter parked outside or even tow away your car. Hence, wherever Buy Now Pay Later starts, you better keep up with the payments.

People have started taking EMIs really easily now, and credit card-induced debt is going up. There was a time when borrowing money was considered shameful, but today it's become a fashion, almost like a lifestyle. Taking a loan has become a status symbol, showing off someone's financial capacity. Taking housing loan and make payment through EMIs to build a house is definitely a good thing. Because the EMI you pay after building your house—whether it takes 10, 15, or even 20 years, especially with long-term housing loans—is really helpful to have own house and to stop paying rent.

There's nothing wrong with taking a housing loan to buy a house. It's a different story if you take a loan for a business.

Lifestyle Loans

But at present, the new trend is lifestyle loans are on the rise. EMIs for lifestyle loans have become a big challenge. Let's look at some statistics— in the first quarter of 2025, household debt shot up massively to 42% of GDP. Household savings seem to be dropping, while household debt keeps rising. This means households are saving less. Back in the day, at least one person in the family used to save like 20-30%.

These days, people always have their phones in their hands, so they instantly click and take loans. Out of those who take loans via these apps, 50% have already taken loans, and according to a PWC study, 84.3% of them belong to the Millennial generation. Among them, 66% have already taken loans from three different sources, meaning they're taking loans from three or more apps. Now, when we go to apply for a housing loan, they ask about your EMI burden, income, how much loan already taken, and all that.

Giving out small loans without any security or collateral has become really easy. Even if borrower don't have any property or steady income, he/she can still get loans through these apps. But they charge crazy high fees and interest rates, they make a lot of money. Because of this, even if some people can't pay back, the lender doesn't really lose anything. The second is that there's been a consumer revolution—you see a boom in buying and selling in society. This could be because of TV, social media, or peer pressure.

Present days, consumers just need to pay 1000 as a down payment, and can take home a TV worth 70,000 for just 1000 rupees. Then, you pay the rest through EMIs. You'll find out the exact EMI amount on the day the scheme starts. While watching the TV, you'll realize how easy it is. That's why this trend isn't just a consumer revolution, but consumer finance has become super simple now. It's not like before. Consumer finance is so easy these days that there's a saying: if you want, you can even buy the Eiffel Tower on instalments.

Because of this, lots of factors in society are fooling people. Later on, the trend changed too. I don't really have that spiritual outlook like before. Religiosity goes up, but spiritual outlook goes down. By religiosity, I mean how tall the idol of my god is, how grandly decorated it is—that's what's increasing. That's what they call religiosity. No matter how many people I lead in a procession, it's like that.

If you have an income, don't just show off your fingers; show off your spending. The economy needs consumption too. Consumption isn't bad; without it, there's no economy as rightly said

consumption is the back bone of economy. But no matter what your capacity is, if you just keep consuming beyond your means, what happens? In the end, you'll just be drowning in debt.

There used to be people who said, "Once we have the capacity, let's buy a big TV." Now, those people are gone. The ones at home aren't in a position to listen. They don't even consult them at all—people just do what they like.

Loans for 'Means' and 'Beyond Means'

During the 1980s and before life wasn't possible without some savings. Living within the means was the rule back then. At present, living beyond means is the norm. That's not necessarily wrong, but where the problem comes is with lifestyle loans. For example, if a son or daughter takes a loan for education, an educational loan is totally fine because that loan changes their life

Once son or daughter gets a job, he/she'll pay off the loan. Otherwise, I wouldn't be able to educate them. Whether it's for education, housing, or business, taking a loan and paying EMIs is fine because that leads to income generation. Any loan that leads to income isn't wrong. But what's happening is that lifestyle loans are increasing. A person needs balance—a balance between wants and needs. Clear idea on what exactly are your necessities?

Taking a loan for needs or wants is never wrong. In a way, EMIs are a convenience. Ever since the Fintech revolution hit, getting a loan has become super easy. One doesn't have to struggle like before; just click a button and the loan is yours. There are different loans for different needs—like housing loans, vehicle loans, or education loans for a girl or boy. All these are need-based loans, and the whole EMI concept is like a blessing for need-based loans.

There's nothing wrong with budgeting for a deficit when you take loans. But the problem is with these lifestyle loans—they're loans taken for wants, not needs. If one wants something beyond his/her capacity and can only afford a two wheeler – but buying a car instead.

Because of this, a lot of people end up taking loans for wants and struggle to pay the EMIs. And what happens then? It can lead to financial bankruptcy.

It's going up in household and also in the economy. Right now, household debt is 42% of GDP. Out of that, 32% is unsecured loans, which means loans without any security, unlike housing loans. For example, when one buys mobile phone, there's no collateral against it. Same with buying a washing machine, fridge, or TV—none of these have any security.

This 32% unsecured loans rings danger bells to the banks, economy and the borrower. Any default, will affect the banks, economy and the borrower.

That's the reason debts keep piling up. Nowadays, with the credit card culture, it's even simpler, and you get points on top of that. So, the more you use your credit card, the more your limit grows. Like, if your credit limit is 1 lakh, it can go up to 2 lakhs, then 5 lakhs, then 10 lakhs. It just keeps increasing and getting bigger. Meanwhile, you end up taking another credit card. These days, millionaires have four or five credit cards, sometimes even three or four. They have four or five accounts, so it gets really messy.

Who are these Debt Seekers?

Mostly people born between 1997 and 2012 are called Gen Z. Basically, anyone born after 1981, so around 40 years old or younger, falls into the Millennials and Gen Z categories. The rising trends among them are causing concern. In fact, according to estimates by CIBIL and studies done by PwC (Price Waterhouse Coopers), this growing trend of being debt-ridden is worrying. Back in the day, having debt meant.

A lot of these people, rush to the banks on the first day when the salary comes in because whether it's the first of the month or the 10th or the 30th, if you plan properly, you can manage to work peacefully even on the 10th. That's why financial literacy is something this generation is really lacking. Without financial planning, things get messy—that's what these studies are showing. Now, in 2018, the average per capita debt was 3.41 lakh rupees—that's the average debt per person in India.

Alarm Bells Ringing

The debt burden per capita was 3.41 lakh in March 2018, and by March 2023, it went up a bit around 3.8 lakh. In these two years, it kept rising, and by March 2025, the per capita debt, or average debt per person in the country, reached about 4.77 lakh — almost 5 lakh. Notably average debt means

not everyone has this exact amount; some have more, some have less. But overall, the average household debt has gone up to 4.77 lakh, close to 5 lakh. So, taking loans isn't bad; it's okay if you borrow for your needs. Today, in India, 28 crore people have taken loans.

People have taken personal loans. According to a study by a civil organization, there are 28 crore unique individual borrowers in the country. This means the number of people taking loans in India is increasing significantly, which is a clear sign of this trend. So, is taking a loan right or wrong? It really depends on why the loan was taken. The first question to ask is: what was the loan for? Around 29% of loans are taken for buying gold and jewellery.

Out of all the spending, 62% of the money borrowed or taken on credit is going towards fashion and lifestyle needs. It could be for a mobile phone, clothes, or some costly shoes—things like that. So, 29% of the loans are for gadgets, and out of that, 62% is spent on fashion items. Around 39% is spent on essential expenses. That means 32% is going towards necessary expenses. If you look at cities across the country today, people are taking EMIs (Equated Monthly Instalments), in metropolitan cities, one-third of people are paying EMIs, which means they take a loan and pay it back over several years.

Effects of Defaulting

Many loan defaults are happening. People are taking loans but can't repay them as the reason they can't pay later is that a person's monthly income determines how much proportion can go toward EMIs without trouble. Generally, the export rule of thumb is EMIs shouldn't exceed 40%. Ideally, 30 to 40% maximum, but sometimes it goes up to 50% for things like housing loans. But if EMIs take up most of the salary/income, what happens is, until the middle of the month, you won't have money left for family needs and then, end up borrowing again.

People keep borrowing more and more loans with high interest rates. If more than 50% of the salary/income goes just to paying EMIs, will inevitably end up bankrupt. It leads to a cycle where - take loans to repay other loans. To pay off one loan, take another, and it just keeps piling up. Instead of want-based loans, people should take need-based loans. And even then, prioritize need-based loans over others.

How to Manage

It's not that people shouldn't take loans, but how they take loans matters. First, loans for capital expenditure—whether it's an individual, government, or company—no matter if the loans are for something that generates income. Borrowing to buy land or start a business and then earning income from it is called income-generating debt, and that's not going to affect the borrower. Secondly, long-term loans, like - repayable over 20 or 30 years (considering the interest rate on the loan), are do not have problem provided repayment capacity also increases over the period.

Conclusion

It's not that one shouldn't take loans, but how he/she take loans matters. First, loans for capital expenditure—whether it's an individual, government, or company—are okay if the loans are for something that generates income. Borrowing to buy land or start a business and then earning income from it is called income-generating debt, and that's fine. Second, long-term loans, like ones you repay over 20 or 30 years, are no problem. Third, consider the interest rate on the loan. Fourth, know the total amount of your loan

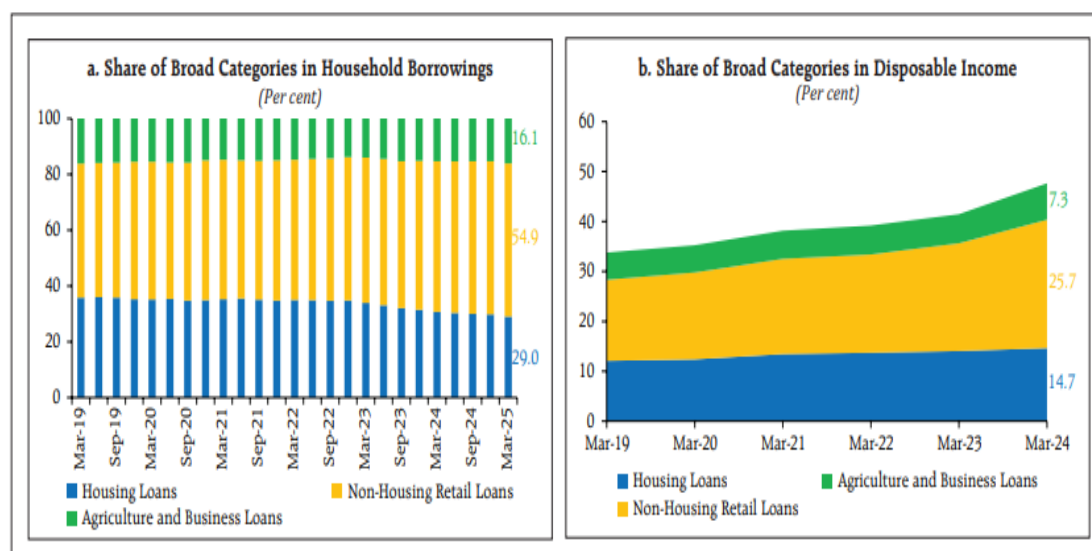
EMI has become a huge opportunity for modern households and the economy. It gives the economy a boost, and because of this EMI-based spending, many people are able to do things in their lifetime that they otherwise couldn't. That's great, but at the same time, these EMIs can become a burden on the household's finances and the economy, hence, household need to be careful to avoid falling into a financial crisis.

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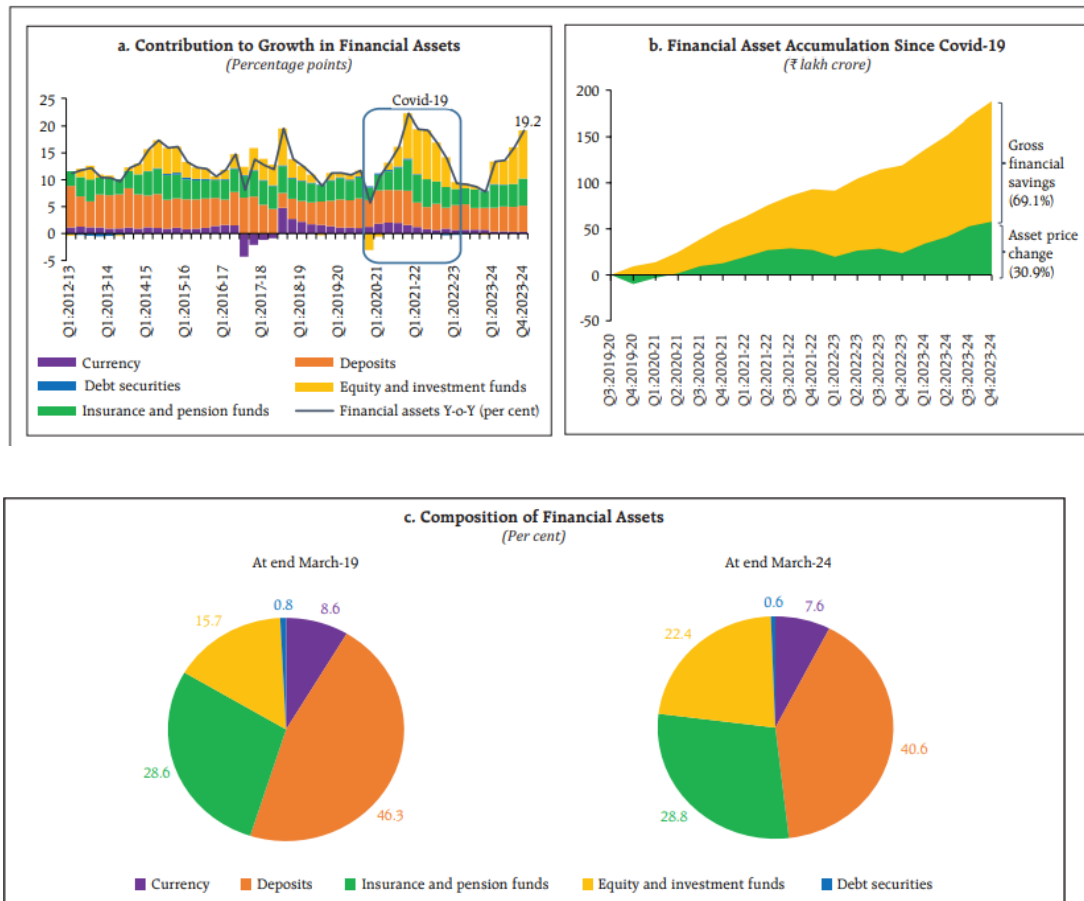
Appendix



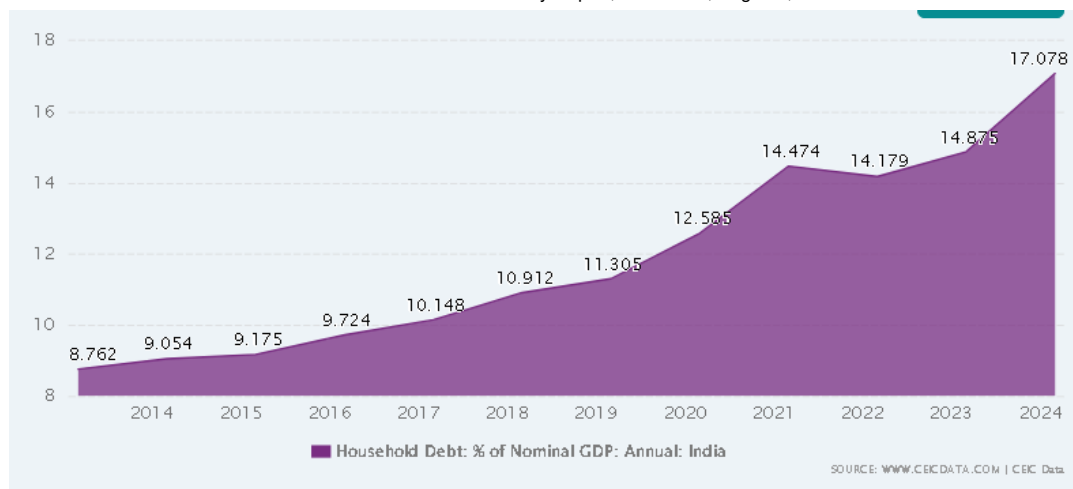
³⁶ Includes personal loans, credit cards, consumer durable loans and other personal loans.

³⁷ In this analysis, consumer segment loans are used as a proxy for the total household debt and represents about 94 per cent of total household debt as at end-December 2024. Consumer segment loans refer to credit that is extended to individuals in their personal capacity, utilised for either personal or business purposes, and is recorded in the consumer repository of credit bureau(s).

Chart 1.43: Household Financial Wealth



Source: RBI Financial Stability Report, June 2025, Page 36,

Source: <https://www.ceicdata.com/en/indicator/india/household-debt--of-nominal-gdp>